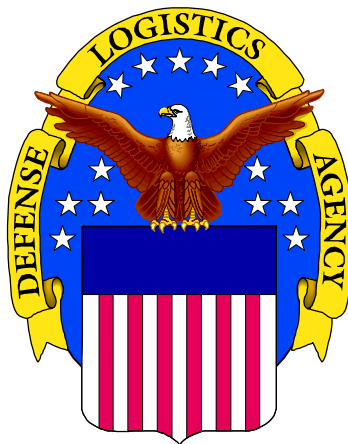


# DEFENSE CONTRACT MANAGEMENT COMMAND

Management Control Review Criteria

Guidebook

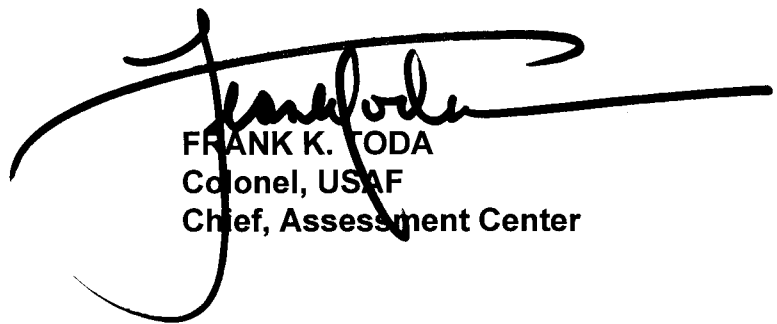


**January 13, 1997**

**The Management Control Review (MCR) Criteria provide a system for evaluating individual Contract Administration Service, management, and administrative processes for their effectiveness in both approach and deployment.**

**This Management Control Review (MCR) Criteria guidebook is intended to serve as a companion document to the DLA Performance Improvement Criteria (PIC) guidebook. The PIC focus on overall process management and provide a cross-organizational perspective of quality performance, customer satisfaction, and organizational capability. Use of the MCR Criteria directly relates to evaluation and improvement of service, support, and supplier/partnering processes under PIC Category 6, Process Management (Areas 6.1b, 6.2a and 6.3a).**

**These two sets of evaluation criteria provide a balanced approach to self-assessment of process compliance, continuous improvement, effective and efficient mission accomplishment, and ultimately customer satisfaction.**



**FRANK K. TODA  
Colonel, USAF  
Chief, Assessment Center**

## DCMC MANAGEMENT CONTROL REVIEW CRITERIA

### 1. REFERENCES:

- A. OMB Circular A-123 revised June 25, 1995
- B. DoD Directive 5010.38, Management Control (MC) Program, August 26, 1996
- C. DoD Instruction 5010.40, Management Control (MC) Program Procedures, Undated
- D. DLAD 5000.4, Contract Management

### 2. INTRODUCTION

A. Purpose - The purpose of this Management Control Review Criteria guidebook is to provide methodologies for risk assessment of contract administration mission and administrative processes, prioritizing those processes, and conducting Management Control Reviews of those processes. These methodologies support the requirements for risk assessment established by DLAD 5000.4, Part II, Chapter 9, "The Management Control and Assessment Process."

B. Background: As government agencies continue to "right size" in an ever-changing environment, the application of risk management principles to organization processes becomes increasingly important. The consistent application of certain principles remains paramount to successful risk management. A number of publications about risk management address the following principles: 1) the use of a logical approach for risk analysis and management, 2) a consistent application of that approach, 3) the constant monitoring and refinement of the approach, and 4) planning for alternate approaches should risk become unacceptable. Risk management within DoD involves the following framework of management principles:

(1) *Management*: Management is commonly defined as planning, organizing (including resource allocation), directing, and controlling an organization, business or any other activity where the intent is to achieve a general or specific goal or objective.

(2) *Management Controls*:

a. Plans, organizational structure, policies, procedures and resource allocations normally include characteristics that ensure objectives are met and that "check and balance" problems as they occur. These control characteristics are called *management controls* and include delegation of authority, separation of duties, oversight responsibility, and requirements for reporting results to higher organizational levels. Management controls ensure achievement of objectives, compliance with quality, product and service standards, operational and financial efficiency and personal integrity. Management controls, in the broadest sense, include the plan of organization and methods and procedures adopted by management to ensure that its goals are met. Management controls include processes for planning, organizing, directing and controlling program operations. Management controls must be cost effective and provide reasonable assurance that assets are safeguarded against waste, loss,

unauthorized use, and misappropriation. Managers and supervisors at all levels are required to establish appropriate management controls.

b. Management controls are defined by OMB Circular A-123 as the organization, policies, and procedures used to reasonably ensure that:

Programs achieve their intended results.

Resources are used consistent with mission.

Programs and resources are protected from waste, fraud, and mismanagement.

Laws and regulations are followed.

Reliable and timely information is obtained, maintained, reported and used for decision making.

c. DLAD 5000.4 (*One Book*) is a set of policies and procedures for managing and conducting contract administration services. As such, One Book establishes primary policies, procedures, and management controls for Contract Administration Office (CAO) mission, management and administrative processes. Contract administration processes and their inherent management controls focus on contract performance and protection of government resources. Other DoD, DLA and DCMC policies and procedures provide additional management controls.

(3) *Management Control Reviews (MCRs)*: Managers and supervisors are also required to review management controls for the purpose of assessing their adequacy, identifying needed improvements, taking corresponding corrective action, and reporting annually on management control effectiveness. MCRs conducted by DCMC activities may identify three types of problems: 1) problems with One Book processes or other requirements which must be referred to HQ DCMC for resolution, 2) problems with execution of a One Book process or other requirements which must be resolved locally, and 3) unacceptable risk that can only be alleviated through adjustments in acquisition strategy which must be referred to HQ DCMC or the buying office for resolution. The results of MCRs and other reviews are reported through the Annual Statement of Assurance and the Report of Material Weaknesses.

### **3. ADDITIONAL DEFINITIONS:**

A. Mission, Management and Administrative Processes - Mission, management and administrative processes are the contract administration processes contained in DLAD 5000.4 and policies and procedures contained in other DoD, DLA, and DCMC policies and procedures applicable to DCMC organizations.

B. Vital Management Controls - Vital management controls are those controls that are most important to mission accomplishment or organizational responsibilities. Noncompliance with vital management controls would have undesirable impact on the accomplishment of the unit's mission and responsibilities and would require disclosure to more senior management. Some management controls are nonvital because

individual noncompliances would not have a significant impact on accomplishment of the unit mission or responsibilities. However, noncompliance with nonvital management controls may become significant if noncompliances in total are extensive enough to impact mission or unit responsibilities and warrant disclosure to more senior management.

C. Objectives and Techniques - Management Controls include objectives and techniques. An objective is a specific policy, aim, goal, condition, or level of control established by a manager. A control technique is any form of organization procedure or document flow that is being relied on to accomplish a control objective.

D. Testing - Testing is defined as procedures to determine through observation, examination, verification, sampling, or other procedures whether management controls are working as intended (achieving management control objectives).

E. Documentation - Management control documentation includes policies and procedures, organizational charts, manuals, flow charts, and related written and graphic materials necessary to describe organizational structure, operating procedures, and administrative practices and to communicate responsibilities and authorities for accomplishing programs and activities. Management Control Review reports, corrective action plans and status documentation are also included.

F. Manager Responsibilities - Managers and supervisors at all levels must take systematic and proactive measures to develop and implement appropriate, cost-effective management controls. Management controls guarantee neither the success of agency programs, nor the absence of waste, fraud, and mismanagement, but they are a means of managing the risk associated with Federal programs and operations. To help ensure that controls are appropriate and cost-effective, managers and supervisors should consider the extent and cost of controls relative to the importance and **risk** associated with a given program.

G. Risk - Defense Systems Management College (DSMC) literature describes risk as the potential for (and the consequential loss of) not achieving a defined goal. Risk relative to management controls refers to the probable or potential adverse effects and consequences of undetected waste, fraud, error, or mismanagement. Risk may result in the loss of Government resources or failure to accomplish significant mission objectives.

#### **4. MANAGEMENT CONTROL REVIEW REQUIREMENTS**

A. Managers and supervisors are required to continuously monitor and improve the effectiveness of management controls associated with their mission.

B. Managers and supervisors are allowed to use a variety of information sources in assessing management controls provided that consideration is given as to whether or not, or to what extent, sources used specifically address or evaluate management controls.

C. A Management Control Review (MCR) is a process used to determine that control techniques are operating properly or that a process developed for other organization purposes provides adequate information on the effectiveness of control techniques. MCRs must assist in determining overall process compliance and, whenever possible, must include testing of controls and documentation.

D. Management control review documentation must identify the type and scope of a management control review, the responsible official, the pertinent dates and facts, the key findings, the recommended corrective actions, and resolution and closure of corrective actions.

**5. MANAGEMENT CONTROL REVIEW CRITERIA.** Specific management control standards or criteria are as follows:

Policy

A. Established mission, management and administrative policies and procedures must provide reasonable assurance that 1) programs, organizations and organizational units achieve intended results, 2) resources are used consistent with mission, 3) programs and resources are protected from waste, fraud and mismanagement, 4) laws and regulations are followed, and 5) reliable and timely information is obtained, maintained, reported and used for decision making.

Authority

B. Appropriate authority, responsibility and accountability should be defined and delegated to accomplish the mission.

C. To the maximum extent possible, controls and related decision-making authority should be in the hands of line managers and supervisors (chain of command) and staff.

Responsibility

D. Employees should follow established procedures and standards in exercising empowered delegation of responsibility.

E. Managers and supervisors should exercise appropriate oversight to ensure individuals observe established procedures and standards and do not exceed or abuse their assigned authorities.

Organizational Structure

F. Appropriate organizational structure should be established to effectively carry out mission responsibilities.

G. Key duties and responsibilities in authorizing, processing, recording, and reviewing official transactions should be separated among individuals.

### Resources and Records

- H. Access to resources and records should be limited to authorized individuals.
- I. Accountability for the custody and use of resources should be assigned and maintained.
- J. Transactions should be promptly recorded, properly classified and accounted for in order to prepare timely accounts and reliable financial and other reports.
- K. Documentation for transactions, management controls, and other significant events must be clear and readily available for examination.

### Follow-Up

- L. Resolution of audit findings and other deficiencies should be promptly evaluated and proper actions determined in response to known deficiencies, reported audit and other findings, and related recommendations. Managers and supervisors should complete, within established timeframes, all actions that correct or otherwise resolve the appropriate matters brought to management's attention.

## **6. RISK MANAGEMENT**

As suggested in paragraph 3F above, management controls and reviews should be risk based. In general, as either potential for not achieving success or potential loss increases, so does risk. Risk management is an organized means of identifying risk and developing, selecting, and managing options for handling these risks. Risk management includes several related actions: risk assessment, risk analysis, risk handling, and risk monitoring. These actions are defined as follows:

- (1) Risk Assessment - Examining a situation and identifying the areas of potential risk.
- (2) Risk Analysis - Determining the probability of events and associated consequences.
- (3) Risk Handling - Techniques and methods developed to reduce or control risk. Techniques for reducing or controlling risk fall into the following categories: avoidance, prevention or control (management controls), assumption, transfer, knowledge and research.
- (4) Risk Monitoring - Continuous monitoring of risk areas by managers and supervisors.

## **7. RISK MANAGEMENT WITHIN DCMC**

### **A. Mission Risk (Oversight of Contract Performance):**

(1) Contract performance risk may arise from a contractor's inability (for any reason) to complete a contract on time, within cost, or to performance requirements. Contract administration oversight processes are designed to provide safeguards for timely detection and prevention of contract performance shortfalls. Contract performance risk, therefore, is the combined effect of 1) the potential that a contract will not be completed in accordance with its terms and conditions, 2) the potential loss resulting from contractor non-compliance, and 3) the potential savings provided by CAO oversight. (The role of the Program Management Office is not addressed, but would parallel the CAO.)

(2) Contractor controlled factors may involve technology, management, quality systems, resources, production operations, etc. Examples of CAO controlled safeguards associated with delegated contract administration functions include progress payment monitoring, quality assurance inspection, engineering change order review, and property management oversight.

### **B. Management and Administrative Risk:**

(1) For internal management and administrative processes, risk may arise from an organization's inability to establish adequate policies or procedures including management controls, to obtain and allocate adequate resources, to monitor operational and financial results, or to use and report reliable and timely information. Management and administrative risk, therefore, is the combined effect of 1) the potential that an organization may not effectively manage its resources, 2) the potential loss, and 3) the potential savings provided by management controls.

(2) Organization controlled factors may include procedures, separation of duties, supervisory controls and management reviews.



## 8. RISK AND MANAGEMENT CONTROLS

A. The implication of these relationships is that risk assessment should be structured to identify risky situations (potential contractor and/or internal process non-compliance) and to provide appropriate risk handling methods and reliable safeguards (management controls) to overcome them. If appropriate management controls are available, risk can be reduced to an acceptable level.

B. The purpose of DCMC Management Control Reviews, then, must be to assess *management controls* (both management control adequacy and organizational effectiveness in management control implementation) against current and/or future risk and to balance the cost of controls to potential losses and savings.

C. A methodology for prioritizing mission and administrative MCRs based on risk is presented in paragraph 9 below.

## 9. PRIORITIZING MANAGEMENT CONTROL REVIEWS BY RISK

A. Each organizational mission, management and administrative process should be qualitatively rated using the elements of risk discussed above (potential non-compliances, losses and savings). High, medium or low ratings may be qualitatively assigned to the risk elements by senior CAO managers based on functional experience and knowledge of contractor and CAO capability. DCMC Metrics, the DCMC Performance Based Assessment Model, and PROCAS provide additional information for assessing risk. The following tables provide an approach for rating and prioritizing mission, management and administrative processes.

(1) Mission processes should be rated as high, medium or low (as illustrated in the following table) and be placed in risk order based on the relative number of high, medium or low ratings. For instance, three “highs” would be a “high potential for non-compliance, high potential for loss, and high potential for savings.” Such a rating would deserve priority for a MCR to ensure that optimum controls are in place, operating properly, and providing a high certainty of successful oversight.

Mission Processes

Mission Process	Contractor Potential for Non-Compliance	Potential Loss	Potential Savings from Oversight
Process A	High/Medium/Low	High/Medium/Low	High/Medium/Low
Process B	High/Medium/Low	High/Medium/Low	High/Medium/Low
Process C, etc.	High/Medium/Low	High/Medium/Low	High/Medium/Low

(2) Similarly, management and administrative processes should be rated as high, medium or low and be placed in risk order based on the relative number of high, medium or low ratings. Three “highs” would be a “high potential for non-compliance, high potential for loss, and high potential savings.” Such a rating would deserve priority for a MCR to ensure that optimum controls are in place, operating properly, and providing a high certainty of internal compliance.

Management and Administrative Processes

Administrative Process	Organization <b>Potential for Non-Compliance</b>	<b>Potential Loss</b>	<b>Potential Savings</b>
Process A	High/Medium/Low	High/Medium/Low	High/Medium/Low
Process B	High/Medium/Low	High/Medium/Low	High/Medium/Low
Process C, etc.	High/Medium/Low	High/Medium/Low	High/Medium/Low

B. The resulting rating and risk ordering of processes provides the basis for scheduling MCRs.

## 10. CONDUCTING MANAGEMENT CONTROL REVIEWS

Exhibits 1 to 6 on the following pages provide supporting forms and guidelines for conducting MCRs.

**BACKGROUND INFORMATION CHECKLIST**

DCMC ACTIVITY: \_\_\_\_\_

ELEMENT: \_\_\_\_\_

PROCESS TITLE: \_\_\_\_\_

REVIEWER: \_\_\_\_\_

DO YOU HAVE:	<u>YES</u>	<u>NO</u>	<u>N/A</u>
• Current organizational charts? Date_____	_____	_____	_____
• Mission and function statement(s)?	_____	_____	_____
• Higher Headquarters/Command Directives pertaining to DoD Management Control Program; One Book Part II, Chapter 9? The Process (DLAD 5000.4, One Book, or other source)? Other background information? List: _____	_____ _____ _____ _____	_____ _____ _____ _____	_____ _____ _____ _____
• Local Directives (e.g. MC Workbook, IOMs, etc.) pertaining to. Management Controls? The Process? Other background information? List: _____	_____ _____ _____ _____	_____ _____ _____ _____	_____ _____ _____ _____
• Standard Operating Procedures (i.e., desk procedures)?	_____	_____	_____
• Process/Workflow Descriptions?	_____	_____	_____
• Past Audits/Evaluation Reports?	_____	_____	_____

## **INSTRUCTIONS FOR EXHIBIT 1**

1. The purpose of Exhibit 1 is to assist in the collection and/or location of background information and source authorities necessary to conducting a Management Control Review (MCR).
2. Review past audits/evaluations/assessment reports (Internal Review, past Command Oversight Assistance and Resource (COARs), Internal Operations Assessment Reviews (IOARs), GAO/DoD IG reports, etc.) and include any deficiencies identified by them in your MCR as well as the corrective action taken or how the deficiencies were resolved.
3. You will need to establish a MCR file with copies of background information and/or you must indicate where such information can be found. It is sufficient to refer to a MCR master file of background information for common, organization-wide background information. However, process peculiar information should be documented as part of the MCR.

DOCUMENTING THE WORK PROCESS

DCMC ACTIVITY: \_\_\_\_\_ ELEMENT: \_\_\_\_\_

PROCESS TITLE: \_\_\_\_\_ REVIEWER: \_\_\_\_\_

BEGINNING POINT: \_\_\_\_\_ ENDING POINT: \_\_\_\_\_

WORK PROCESSING STEPS	RESPONSIBILITY (Job Title/Office)	SUPPORTING DOCUMENTS	RECIPIENT (Job Title/Office)

List sources used to identify steps:

## **INSTRUCTIONS FOR EXHIBIT 2**

1. This Exhibit is not necessary if process documentation in the form of existing instructions, a graphic description of the process (a flow chart), or a “One Book” chapter is available.
2. The purpose of Exhibit 2 is to identify the basic steps and procedures to accomplish a process when reliable documentation of the process is not available. A process is defined as a group of related work processing steps or actions that are held together by a significant beginning and ending point. The objective is to segment a process into a series of steps in order to facilitate the identification and evaluation of management controls or the lack thereof.
3. Complete this Exhibit in the following sequence:
  - a. List the beginning and ending points.
  - b. List all work processing steps in sequence.
  - c. List the job title of individuals responsible for each step and supporting documentation used.
  - d. List the output recipients of each step.
  - e. Identify sources used in identifying process steps (interviews, related documentation or regulations).

**IDENTIFYING RISKS/OBJECTIVES AND CONTROLS**

DCMC ACTIVITY: \_\_\_\_\_ ELEMENT: \_\_\_\_\_

PROCESS TITLE:: \_\_\_\_\_ REVIEWER: \_\_\_\_\_

PROCESS RISK/RISK CONTROL OBJECTIVES	PROCESS CONTROLS	TYPE OF CONTROL	CONTROL RATING

**TYPE OF CONTROL(S)**

- D** - DOCUMENTATION
- R** - RECORDS
- A** - AUTHORIZATION
- O** - OTHER

- ST** - STRUCTURE
- SU** - SUPERVISION
- SC** - SECURITY

**RATING OF CONTROL**

- S** - STRONG
- A** - ADEQUATE
- W** - WEAK
- E** - EXCESSIVE

PREPARED BY: \_\_\_\_\_ TEL #: \_\_\_\_\_ DATE: \_\_\_\_\_

REVIEWED BY: \_\_\_\_\_ TEL #: \_\_\_\_\_ DATE: \_\_\_\_\_

## INSTRUCTIONS FOR EXHIBIT 3

1. This exhibit is not necessary if process documentation in the form of existing instructions or descriptions such as a One Book chapter are available and adequately identify risks and control objectives.
2. The purpose of Exhibit 3 is to identify the existing management controls within a process. This step will highlight areas for management attention and determine the adequacy of management controls.
3. The form is divided into four parts:
  - a. Process Risk/Process Objectives are the specific risks associated with each process and the objectives of procedures established to control process risk (i.e., accurate data, protect assets, efficient use of resources).
  - b. Process Controls are the procedures used to achieve these objectives (i.e., data verification, separation of duties, suspense systems, control logs).
  - c. Type of Control reflects the General Accounting Office standards pertaining to control techniques and are used to help you identify controls for each control objective.

Types of controls are defined as follows:

- (1) Documentation - Written descriptions of process goals, operational procedures, and other control activities and permanent records of Management Control Reviews including results and findings.
- (2) Records - Files maintained to provide an audit trail.
- (3) Authorization - Procedures in place to prevent personnel from exceeding their authority.
- (4) Structure - The overall framework for work performance which delineates the separation of key duties among individuals within the work setting.
- (5) Supervision - The assignment, review and approval of work within the control environment to reduce losses and improve achievement of results.
- (6) Security - Systems within the control environment which assign accountability, limit access, and safeguard resources.

- d. Control Rating calls for an evaluation of the effectiveness and efficiency of the process controls by indicating whether they are strong, adequate, weak or excessive.

4. Two examples are as follows:

PROCESS RISK/RISK CONTROL OBJECTIVES	PROCESS CONTROLS	TYPE OF CONTROL	CONTROL RATING
Overpayment of Progress Payments. Insure only authorized payments are made.	Accounting system review. Audit of progress payments. Supervisory review.	R ST SU	A A A
Unauthorized access to computer data. Safeguard computer data.	Use of passwords to limit access.	SC	S



## ANALYZING THE CONTROL ENVIRONMENT

DCMC ACTIVITY: \_\_\_\_\_ ELEMENT: \_\_\_\_\_

PROCESS TITLE: \_\_\_\_\_ REVIEWER: \_\_\_\_\_

FACTOR	YES		NO		COMMENTS/DATA SOURCE		CORRECTIVE ACTION
<b><u>ORGANIZATIONAL STRUCTURE</u></b> 1. Is the organization chart current? 2. Does the structure help rather than hinder work performance? 3. Does the structure provide for proper amounts of supervision? 4. Does the structure support a system of management controls? 5. Is the process supported with: a. Accurate and up-to-date performance standards? b. Accurate and up-to-date position descriptions? 6. Overall, is the organizational structure satisfactory?							
<b><u>DELEGATION &amp; SEPARATION OF DUTIES</u></b> 1. Does delegation of authority a. Exist in writing? b. Clearly delineate duties and responsibilities? c. Prevent overlapping, duplication and conflicts of duties and responsibilities? d. Grant sufficient authority to officials to carry out their responsibilities? e. Divide responsibility so that no single person controls all phases of critical transactions? 2. Does delegation of authority support a system of management controls? 3. Overall, is the delegation of authority satisfactory?							

## ANALYZING THE CONTROL ENVIRONMENT

DCMC ACTIVITY: \_\_\_\_\_ ELEMENT: \_\_\_\_\_

PROCESS TITLE: \_\_\_\_\_ REVIEWER: \_\_\_\_\_

FACTOR	YES		NO		COMMENTS/DATA SOURCE		CORRECTIVE ACTION
<b><u>POLICIES/PROCEDURES/RESULTS</u></b> 1. Are policies, procedures, and results in accordance with applicable directives and instructions (e.g. DLAD 5000.4). 2. Are policies and procedures a. Current and in writing? b. Consistent with statutory authority? c. Simple and easy to understand? d. Revised and updated as necessary? 3. Do policies and procedures help rather than hinder work performance? 4. Do policies and procedures support a system of internal controls? 5. Do managers and supervisors exercise oversight? 6. Overall, are the policies and procedures satisfactory?							
<b><u>REPORTING</u></b> 1. Are reports timely, accurate, useful, and distributed to appropriate users? 2. Do progress or performance reports show comparisons with planned performance, budget allowances, and/or past performance? 3. Are reports made in accordance with prescribed directives? 4. Are personnel required to report only on matters within their control? 5. Are reports made on Management Controls? 6. Overall, is the reporting process satisfactory?							

## ANALYZING THE CONTROL ENVIRONMENT

DCMC ACTIVITY: \_\_\_\_\_ ELEMENT: \_\_\_\_\_

PROCESS TITLE: \_\_\_\_\_ REVIEWER: \_\_\_\_\_

FACTOR	YES		NO		COMMENTS/DATA SOURCE		CORRECTIVE ACTION
<b><u>RESOURCE &amp; RECORDS PROTECTION</u></b>							
1. Is data safeguarded to prevent unauthorized access, improper changes, or loss?							
2. Is accountability for the custody and use of resources assigned and maintained?							
3. Do appropriate controls exist to detect unauthorized use of resources/records?							
4. Are procedures in place to ensure that data entered is: authorized/approved, complete,							
5. Are procedures in place to ensure that data outputs are: complete, accurate, and timely?							
6. Is documentation for transactions, management controls, and other events clear and readily available for examination?							
7. Are personnel aware of the control risks in resources or records systems?							
8. Overall, are resource/records management systems satisfactory?							
<b><u>CHECKS/BALANCES</u></b>							
1. Are program evaluations/management reviews routinely performed?							
2. Are audits routinely performed?							
3. Are audit and review findings corrected in a timely manner?							
4. Does the activity have an audit follow-up program?							
5. Does the activity have a fraud, waste, and abuse awareness program?							
6. Have objectives for management controls been identified and developed?							
7. Overall, is the system of checks and balances satisfactory?							

ANALYZING THE CONTROL ENVIRONMENT

DCMC ACTIVITY: \_\_\_\_\_ ELEMENT: \_\_\_\_\_

PROCESS TITLE: \_\_\_\_\_ REVIEWER: \_\_\_\_\_

FACTOR	YES		NO		COMMENTS/DATA SOURCE		CORRECTIVE ACTION
<p><b><u>PROFESSIONALISM</u></b></p> <p>1. Do personnel practices include:</p> <p>    a. Dissemination of Standards of Ethical Conduct?</p> <p>    b. Provisions for conflict of interest disclosures?</p> <p><b><u>COMMUNICATIONS</u></b></p> <p>1. Do performers receive feedback as a result of supervisory monitoring?</p> <p>2. Does the communication among staff support a system of management controls?</p> <p>3. Does a mechanism exist for sharing of information across work areas?</p> <p>4. Does a mechanism exist for management to get suggestions or other information from personnel?</p> <p>5. Overall, is the communication within the organization satisfactory?</p> <p><b><u>SUMMARY</u></b></p> <p>1. Do management controls and the execution of management controls provide reasonable assurance of intended results; proper use of resources; protection from waste, fraud, and mismanagement; compliance with laws and regulations; and reliable and timely information for decision making?</p>							

## **INSTRUCTIONS FOR EXHIBIT 4**

1. This exhibit is not necessary if the work setting for a process being reviewed has been analyzed within the previous year and has not materially changed.
2. The purpose of analyzing the control environment is to determine the type of control environment that applies to the work setting for a process being reviewed and to make sure that the work environment satisfies DCMC Management Control Criteria. The control environment includes aspects of the work setting that supports a comprehensive system of management control. The analysis is performed using standard management review factors. Nine factors are identified and each factor is subdivided into elements.
3. Insert the appropriate response after each element. If a response is "NO," include comments.

TESTING PROCESS PROCEDURES

DCMC ACTIVITY: \_\_\_\_\_

ELEMENT: \_\_\_\_\_

PROCESS TITLE: \_\_\_\_\_

PROCESS CONTROLS TESTED	TEST METHOD	SAMPLE PLAN/RATIONALE	TEST RESULTS (Complies with Process/Customer Requirements?)

## INSTRUCTIONS FOR EXHIBIT 5

1. This exhibit represents the core of Management Control Reviews -- checking to make sure that management controls are working and that intended results are being achieved. Testing controls provides confidence based on statistical results.
2. Select a test method to determine if management controls are working to meet process requirements:
  - a. Document Analysis: Reviewing existing records. (List documents reviewed/findings.)
  - b. Observations: Watching the performance of procedures and their controls. (Provide synopsis.)
  - c. Interviews: Eliciting information from personnel who perform processes and controls or related personnel. (List personnel interviewed, questions asked, and responses.)
  - d. Measurement: Measuring activities, functions, real and personal property, funds, etc. (Provide detailed explanation.)
  - e. Questionnaires: Sending out questionnaires to elicit information, opinions. (Provide copy of questionnaire and the responses.)
3. Determine the universe to be tested and describe the sample testing plan. To determine how large a sample should be tested, begin with “10% of the whole” as a general rule of thumb, then consider either decreasing or increasing the percentage as follows:
  - a. Decrease to 1% - 9%: When control environment is strong; when controls have operated satisfactorily in the past, and no major changes have occurred; when controls are fairly routine.
  - b. Increase to 11% - 100%: When control environment is weak; when only a small margin of error is acceptable; when an important resource is at stake.
4. Indicate test results. Are processes being followed and are controls functioning as intended, and are they adequate to ensure intended results and safeguard against waste, fraud, and mismanagement. Do the products/services resulting from the process meet process or customer requirements.
5. An audit trail necessitates that you indicate where copies of documents, or other physical evidence that controls are working, can be located or the location of the retained copies, if these records are to be purged within one year.
6. An example of testing controls for “Timely Contract Compliance/Closeout” follows:

PROCESS: Timely Contract Completion/Closeout

TEST PERIOD: 1 Jul 96 - 31 Dec 96.

PROCESS CONTROLS TESTED	TEST METHOD	SAMPLE PLAN/RATIONALE	TEST RESULTS (Complies with Process/Customer Requirements?)
Final DD Form 250 Final Payment Documentation DD Forms 1597	Document Analysis Interview Process Review Checklist	A random sample (20%) was taken of contracts closed in the last six months. The review included all types of contracts and interviews were conducted with the functional specialists.	The test disclosed a tendency for the closeout cycle to be delayed due to either non-receipt or late receipt of final payment notification.

MCR RECORD

DCMC ACTIVITY: \_\_\_\_\_

PROCESS TITLE: \_\_\_\_\_

DESCRIBE THE PROCESS USED TO VERIFY THE PROGRAM (EVENT CYCLE).

DOCUMENTS, REGULATIONS, SOP's REVIEWED

REFERENCE	TITLE	DATE OF PUBLICATION

INTERVIEWS CONDUCTED

SUBJECT	PERSON INTERVIEWED	TITLE	INTERVIEWED BY	DATE

RECORDS REVIEWED

TYPE	CONTROL NUMBER/DATE	RESULTS



**MCR RECORD**

DCMC ACTIVITY: \_\_\_\_\_

PROCESS TITLE: \_\_\_\_\_

DESCRIBE THE PROCESS USED TO VERIFY THE PROGRAM (EVENT CYCLE).

**OBSERVATIONS CONDUCTED**

<b>STEP OBSERVED</b>	<b>PERFORMED BY</b>	<b>OBSERVED BY</b>	<b>DATE</b>

**COMMENTS: (DEVIATIONS FROM DOCUMENTED STEPS; ALTERNATE STEPS  
IMPLEMENTED)**

PREPARED BY: \_\_\_\_\_ TEL #: \_\_\_\_\_ DATE: \_\_\_\_\_  
REVIEWED \_\_\_\_\_ TEL #: \_\_\_\_\_ DATE: \_\_\_\_\_  
BY: \_\_\_\_\_

## **INSTRUCTIONS FOR EXHIBIT 6**

1. Complete the sections of the record with information not already recorded in the previous Exhibits.
2. It is important to identify sample items (i.e. file folders) or events observed (date, time, participants) for testing accomplished under Exhibit 5.

## IDENTIFYING, DOCUMENTING & TRACKING CORRECTIVE ACTIONS

DCMC ACTIVITY: \_\_\_\_\_

ACTIVITY: \_\_\_\_\_

PROCESS TITLE: \_\_\_\_\_

CURRENT PROBLEM PROCEDURE (from the Work Process at Exhibit 2):

### RECOMMENDED SOLUTION:

### CORRECTIVE ACTION PLAN:

- a. Date corrective action was implemented: \_\_\_\_\_  
(*identify the steps taken; attach the documentation to support the corrective action*)
- b. Corrective action completed/not completed: \_\_\_\_\_  
(*indicate yes or no; state reason(s) for not being completed*)
- c. To be completed by: \_\_\_\_\_  
\_\_\_\_\_  
(Name & Position) (Date)
- d. Has a tracking system been established? Are the time frames still realistic?

**UNRESOLVED PROBLEMS:** (outside the authority of the activity to correct)

PREPARED BY: \_\_\_\_\_ TEL #: \_\_\_\_\_ DATE: \_\_\_\_\_  
REVIEWED BY: \_\_\_\_\_ TEL #: \_\_\_\_\_ DATE: \_\_\_\_\_



